

## **President's Commission on the United States Postal Service Statement of Patrick R. Donahoe**

Good morning. I am Patrick R. Donahoe, the Chief Operating Officer of the United States Postal Service. Joining me today are Anita Bizzotto, Chief Marketing Officer, and Keith Strange, Vice President for Supply Management.

We appreciate the opportunity to speak with you about our private sector partnerships. Our business can be divided into three segments: First, the work we do ourselves; second, the work we outsource; and, third, the work our customers do through worksharing.

This morning, I will discuss our overall approach to outsourcing. Keith will talk about our supplier relationships, and Anita will discuss the work our customers do and the worksharing discounts they receive for that work.

It is important to understand the context in which our private sector partnerships work. The Postal Service is a 66 billion dollar a year business. We handle 46 percent of the world's mail. We collect and process 203 billion pieces of mail each year and deliver to 140 million homes and businesses in the United States and its territories. We are the second largest civilian employer in the nation, with 740 thousand career and 100 thousand temporary employees.

As the Chief Operating Officer, I am responsible for ensuring that this business runs smoothly and that it fulfills our obligation to our customers—the American people.

I am happy to report that we are fulfilling that obligation. We are reaching record levels of service while closely managing to our bottom line. Over the past three years, we have reduced our costs through improved productivity and efficiency. Today, we are delivering to more addresses than ever before. We have the same complement as we did in 1994 while delivering 14 percent more mail to 23 percent more addresses.

Partnering has helped us to achieve these results, and partnering is not new to the Postal Service. We recognized long ago that the Postal Service should “own” certain processes and functions, while allowing the private sector to provide others. One of our earliest private sector partnerships was launched way back in 1823, when the Postal Service contracted with the first steamship companies to carry mail.

Since that time, we have continued to view partnering as an effective technique for managing our bottom line. At the same time, we've made sure that our operations remain effective and productive. Partnering enables us to provide quality, universal service at an affordable price.

Last year alone, we spent more than 7 billion dollars for work performed by our partners in the private sector. This includes transportation, professional services, contract retail units, rent for buildings and vehicles, and janitorial services.

In approaching strategic outsourcing, we generally retain work within our core competencies—mail processing and delivery—and consider outsourcing other functions. We evaluate our non-core functions to determine if the marketplace can meet our needs at a reasonable cost. Where appropriate, we leverage private sector capabilities to produce the best possible outcome for our customers.

The Postal Service has historically contracted out a number of commercially available services at both the national and local levels. These have included contracts affecting business responsibilities, such as: selling and marketing; collecting and accepting; sorting and distributing; transporting; delivering; and enabling infrastructure. Some specific examples are: contract postal

units; customer call centers; operational facilities; mail transport equipment service centers; mail transportation; highway contractor route delivery; vehicle maintenance; custodial services and building maintenance; information systems; and professional services.

The best example of strategic outsourcing is the method we use to fulfill our transportation requirements. The acquisition of transportation assets would require massive capital investments on the part of the U.S. Postal Service—investments that our customers would have to pay for. We avoid using our scarce capital this way by relying on outsourcing to meet our network requirements.

We procure all modes of transportation from the private sector, including air, highway, rail, and water. Our partnership with Federal Express demonstrates the benefits of blending our strengths with those of the private sector to meet our customers' needs. We provide world-class mail processing and delivery capabilities, while FedEx provides a world class transportation network. Furthermore, our relationship with FedEx allows us to purchase only the capacity we need on particular flights. The same is true of our relationship with commercial, passenger airlines. This reduces our costs by allowing us to share overhead costs with other air-transportation customers.

A Postal Service-owned air network would not offer us this flexibility and it would increase our costs. Whether mail volume is light or heavy, we would have to pay the full cost of flying each aircraft. FedEx is an example of effective partnering with private sector transportation suppliers to meet our business needs. And our outsourced highway network is actually twice as large as our air network. Each year, we do over two billion dollars worth of business with more than 17,000 highway transportation suppliers.

Other examples of leveraged results are the many partnerships that help us to expand our retail reach. For over 225 years, our retail partnerships have continued to grow—from Pony Express stops and Relay Stations—to Contract Postal Units and supermarkets—to ATMs and the Internet.

The Postal Service sells stamps and provides other services at almost 5,000 contract postal units around the nation. For example, we have partnered with Woods Forest National Bank, at its Wal-Mart and Kroger locations in Texas. We also offer alternative access at almost 17,000 ATM locations nationwide. Our partners include Wells Fargo, Fleet Bank, and U.S. Bank. And companies such as Pitney-Bowes and Stamps.com help us increase customer access by offering electronic postage through their web sites.

Another example of our partnering with the private sector is our decision to outsource research and development of the technology that has made our efficiency and productivity improvements possible. We are a delivery company, not a technology company. That is why we rely on the private sector to design and produce all of our mail processing equipment. Our partners at Siemens and Lockheed-Martin have told you about the good work they have done for us in this area.

Private sector advances in technology have made it possible for the Postal Service to shrink its network while continuing to provide seamless mail-processing and delivery. We also recognize that there are good reasons not to outsource.

Mail processing and delivery functions have to be integrated so they operate together smoothly. Consider for a moment the size and complexity of our network. Each day, we take in more than 650 million pieces of mail through millions of entry points: street collection boxes, rural delivery boxes, post office mail slots, and businesses from coast to coast. Next, each piece of mail moves to one of about 300 processing facilities where it is canceled, mixed, mingled, sorted, and sent on to another processing facility at the delivery end. There, the process reverses itself, with mail sorted again for the many delivery offices served by each processing facility. Finally, mail of all classes, shapes and sizes is arranged for delivery to customers along more than 300,000 carrier routes. Integration and synchronization of a system this complex is critical to maintaining quality,

speed, and efficiency. It is this integration that supports the strength of the entire system and helps us maintain the high quality of service we provide to the American people. The Postal Service is responsible for this integration. Just as important, this integration and control provide a critical measure of safety and security to every piece of mail we handle. Perhaps more than ever before, these concerns figure prominently in our outsourcing decisions.

There is another significant factor that can influence a decision not to outsource: sometimes we can do it more efficiently ourselves. Whether we decide to provide goods and services ourselves – or opt for a private sector partner – depends on the result of our continuous examination of the bottom line and efficiency – our own, and those of the private sector.

In considering outsourcing opportunities, the Postal Service receives feedback from the public, the Congress and other oversight bodies, and its own employees and their representatives.

Specifically, when considering outsourcing work currently performed by Postal Service bargaining unit employees, additional requirements and procedures must be satisfied. Article 32 of the national postal collective bargaining agreements requires that the Postal Service give “due consideration” to five key factors when evaluating the need to subcontract. The five factors are public interest, cost, efficiency, availability of equipment, and qualification of employees. In addition, if the subcontracting being considered will have a “significant impact” on bargaining unit work, the Postal Service must comply with certain procedural obligations. These obligations include national level notice to the affected union; providing the union the opportunity to meet with the Postal Service during the development of an initial Comparative Analysis report; and inclusion in the initial Comparative Analysis report of a statement of the union’s views and any proposal to avoid subcontracting.

A standing, cross-functional team supports and assists postal management in progressing through the defined evaluation and validation process when considering outsourcing efforts. This team is comprised of representatives from Labor Relations, the Law Department, Finance, Operations, Supply Management, Government Relations, and Public Policy, and is chaired by a member of the Deputy Postmaster General’s staff.

When outsourcing, the Postal Service contracts for services that provide the best value in service at the lowest cost—a complete supply chain management approach. At the same time, the ability of the Postal Service to maximize the flexibility offered by outsourcing has been circumscribed by certain federal laws that apply to the Postal Service, as part of the federal government. Pursuant to these statutes, the Postal Service must implement certain social policies that add cost and significant procedural burdens to the process of meeting its universal service mission.

As the Chief Operating Officer, I have a clear picture of the Postal Service’s internal costs and efficiencies. And I rely on our Vice President for Supply Management, Keith Strange, to provide me with similar information concerning potential private-sector partners. Keith will now speak to you about the Postal Service’s efforts to obtain the best prices for the best products.